

# News Release



***Controller of the State of California - Kathleen Connell***

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**FOR IMMEDIATE RELEASE**

## **STATE CONTROLLER KATHLEEN CONNELL SHARES CONCERNS REGARDING THE ADMINISTRATION'S ENERGY PLAN ASSUMPTIONS**

Sacramento, May 21, 2001 – State Controller Kathleen Connell today reviewed her analysis of the state's financial picture taking into account the following new information:

- 1) The amount of energy purchased through long-term energy contracts;
- 2) Price-per-megawatt-hour on the spot market; and
- 3) Potential revenues from rate increases.

"I am concerned because the assumptions in this plan are absolutely critical to the state's financial health. The numbers to date indicate a significant variance with the plan and suggest the Administration is not in a position to meet those goals."

In regard to long-term contracts, the Controller explained that the Administration's plan calls for 11% of energy to be purchased through long-term contracts for the first half of this calendar year, but to date less than 1% of energy has been purchased through long-term contracts.

Of the \$5.1 billion paid by the state for energy purchases to date, only \$36 million has been spent on long-term contracts, or less than 1% of all payments.

"In order for the Administration to achieve its goal of 11%, 30% of all future energy disbursements would need to be in long-term contracts."

In addition, the contracts signed so far do not cover the most critical time, summer. "I see no indication that we'll get a price break during the heat of summer," Connell said. "We'll be paying spot market prices when we need the energy most." Connell noted that most of the long-term contracts her office has received will only provide power at reduced rates, prior to July 1 and after September 30, leaving peak summer power purchases to be made on the spot market.

The Administration's plan also assumes spot market prices will drop to a more affordable level of \$195 per megawatt-hour during the summer months, when spring and winter prices are \$346 and \$216 respectively.

"That part of the Administration's plan is just not reasonable or realistic," Connell said.

When it comes to covering energy costs through rate increases, the plan assumes that there will sufficient revenues to cover the costs. However, the Department of Water Resources has projected a need of \$9.2 billion while the Public Utilities Commission approved a ratepayer increase last week that will provide only \$7.5 billion.

**- More -**

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"The Department of Water resources is saying what it needs, and the plan fails to meet that need by \$1.7 billion. It's clear that the ratepayers increase isn't sufficient to cover the projected energy costs," Connell said.

Finally, the Controller explained why another debt issuance will be needed in spring 2002. This debt in the form of a Revenue Anticipation Note (RAN) is commonly used to cover state expenditures after the next budget takes effect. The Controller noted it is unfortunate that a RAN of between \$3 billion and \$5 billion will be needed in this case.

"In a year when we did not anticipate a RAN with the strong economy and an historic budget surplus, the unexpected energy purchases will now force the issuance of a RAN greater than what has been issued in the last seven years."

The Controller also said she will be addressing the energy crisis through her role on the Board of Equalization. She announced that a hearing in June would determine whether power generators are being assessed an appropriate amount of property tax.

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